



Leading Company in a Booming Industry

We initiate coverage on Leejam Sports Company (Fitness Time) with a Hold recommendation and 12-month target price of SAR 78, representing a 2.6% upside from the current level. Leejam Sports is considered to be a market leader in the construction, operation, management, and maintenance of fitness centers in Saudi Arabia. The company has an attractive prepaid business model and well positioned to gain from the potential growth in the fitness centers market, driven by growth in the female fitness market, favorable demographics, lifestyle changes, and low market penetration.

Female fitness market

The female fitness market is in its infancy, and this would present an excellent growth opportunity for Leejam Sports. The company has the scale and expertise to ramp-up the number of female branches, utilizing the advantage of being the first mover in the market in many cities. Moreover, Fitness Time as the strongest brand currently in the market would provide Leejam Sports new female centers with a shorter ramp up period than other new centers with less advertising effort.

Favorable demographics

Saudi Arabia has a very young population, with 32% below 19 years of age; which represents a huge addressable market. Moreover, Saudi Arabia has one of the most overweight population globally, with around 34% obese and 68% overweight, according to the World Health Organization. These two demographic characteristics create a favorable environment for the fitness market in general.

Change in people's attitude and low market penetration

People are becoming increasingly fitness conscious in Saudi Arabia and globally. According to Nielsen's 2014 survey in the US, 81% millennials exercise or would like to, compared with only 61% of baby boomers. In spite of the latter generation's health being more impacted by their decision on whether or not to exercise. Moreover, the fitness market penetration in Saudi is low (8%) compared with other developed countries (USA, Canada, and Australia).

Diverse portfolio of brands

The company has a diverse four-main-businesses format (Fitness Time Plus, Fitness Time, Fitness Time Pro, and Fitness Time Junior); we believe these different formats would be useful in capturing a wide range of customers based on different income brackets. Leejam could use its Fitness Time Pro brand to enter cities with a lower purchasing power.

Attractive business model

Leejam has a very attractive pre-paid subscription-based model; members pay for subscriptions 3, 6, or 12 months in advance. Hence, the company has a high positive cash flow, giving it room to spend on expansion, service debt, and cover operational expenses.

The stock trades at a fair value

We applied DCF to value Leejam and arrived at a fair value of SAR 78, representing 2020E 16.7x P/E and 11.4x EV/EBITDA. Relative to the SFC Retail coverage, Leejam trading at par on P/E and EV/EBITDA basis. Although we like the story of Leejam, the stock trades at a fair value.

SAR 78

12-Month Target Price

Hold

Recommendation

Stock Details		
Last Close Price	SAR	76.00
Upside to target	%	2.6
Dividend Yield	%	2.4
Expected Total Return	%	5.0
Market Capitalization	SAR mln	3,981
Shares Outstanding	mln	52.4
52-Week High	SAR	79.60
52-Week Low	SAR	41.00
Price Change (YTD)	%	28.2
3-Mth ADTV	thd	170
EPS 2019E	SAR	4.25
Reuters / Bloomberg	1830.SE	LEEJAM AB

Source: Tadawul, Bloomberg

SAR mln	1Q19E	2019E
Revenue	221	920
Gross Profit	79	252
Operating Income	55	255
Net Income	49	223

Key Shareholders	
Hamad Al-Saqri	60 %
Public	40%

Price Multiples			
	2018	2019E	2020E
P / E	22.1x	17.9x	16.2x
EV / EBITDA	14.2x	11.8x	11.1x
P / S	5.0x	4.3x	3.8x
P / B	5.6x	4.9x	4.4x

Share Performance



Source: Bloomberg, Tadawul

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Summary Financials

SAR mln, ending Dec-31st

Income Statement	2018	2019E	2020E	2021E
Sales	800	920	1,041	1,149
Cost of sales	(495)	(567)	(658)	(729)
Gross profit	305	352	383	420
S,G&A	(102)	(97)	(114)	(127)
Operating income	203	255	268	294
Financial Charges	(21)	(28)	(20)	(18)
Zakat	(2)	(5)	(3)	(3)
Net income	180	223	245	272
Shares outstanding (mln)	52	52	52	52
EPS (SAR)	3.44	4.25	4.68	5.20
EBITDA	313	376	400	435
DPS (SAR)	1.83	2.47	2.72	3.01

CAGR		1Q19E	1Q18	Y/Y Chg	4Q18	Q/Q Chg
2015-18	2018-21E	221	177	24%	225	(2%)
10%	13%	(141)	(119)		(131)	
5%	11%	79	58	37%	94	(16%)
		(24)	(21)		(35)	
1%	13%	55	37	49%	59	(7%)
		(5)	(5)		(5)	
		(1)	0		(0)	
(0%)	15%	49	33	50%	54	(9%)
		52	52		52	
		0.94	0.62	50%	1.03	(9%)
6%	6%	81			88	(9%)

Balance Sheet	2018	2019E	2020E	2021E
Cash & equivalents	19	48	39	11
Receivables	20	23	27	29
Other current items	130	145	164	182
Current assets	170	216	230	221
PP&E	1,419	1,543	1,656	1,760
Other assets	20	20	20	20
Total assets	1,609	1,779	1,906	2,001
Payables	37	42	53	58
ST debt	108	108	88	88
Other current items	286	354	377	415
Current liabilities	430	504	517	561
Medium-term debt	376	371	371	296
Other liabilities	88	98	108	120
Total liabilities	895	972	996	977
Total equity	714	807	910	1024
Total liabilities & equity	1,609	1,779	1,906	2,001

CAGR		Growth (Y/Y)	2018	2019E	2020E	2021E
2015-18	2018-21E	Sales	9%	15%	13%	10%
		EBITDA	7%	20%	6%	9%
		EBIT	4%	26%	5%	9%
		Net income	3%	24%	10%	11%
		Margins				
		Gross	38%	38%	37%	37%
		EBITDA	39%	41%	38%	38%
		EBIT	25%	28%	26%	26%
		Net	23%	24%	24%	24%
		Ratios				
		ROA	11%	13%	13%	14%
		ROE	25%	28%	27%	27%
		Payout	53%	58%	58%	58%
		D / E	0.7x	0.6x	0.5x	0.4x
		Net debt / EBITDA	1.5x	1.1x	1.0x	0.9x

Statement of Cashflows	2018	2019E	2020E	2021E
Income before zakat	182	227	248	275
Non-cash items	151	121	132	141
Receivables	(14)	(3)	(3)	(3)
Prepayments	(12)	(15)	(19)	(17)
Deferred revenue	(18)	39	35	33
Payables	(1)	5	11	6
Other items	(21)	33	(5)	14
Cash from operations	268	408	398	449
Purchase of PP&E	(245)	(245)	(245)	(245)
Other investing activities	0	-	-	-
Cash from investing	(244)	(245)	(245)	(245)
Dividends paid	(93)	(129)	(142)	(158)
Debt (payments) / proceeds	16	(6)	(20)	(75)
Cash from financing	(77)	(135)	(162)	(232)
Change in cash	(54)	28	(9)	(28)
Beginning cash	73	19	48	39
Ending cash	19	48	39	11

CAGR		Valuation	2018	2019E	2020E	2021E
2015-18	2018-21E	P / E	22.1x	17.9x	16.2x	14.6x
		EV / EBITDA	14.2x	11.8x	11.1x	10.2x
		P / S	5.0x	4.3x	3.8x	3.5x
		P / B	5.6x	4.9x	4.4x	3.9x
		Key Statistics				
		Number of fitness cente	126	139	159	179
		Sales / centers (SAR ml	6.3	6.6	6.5	6.4
		Profit / centers (SAR mlr	1.4	1.6	1.5	1.5

DCF Valuation Summary (SAR)

Risk-free rate	4.0%
WACC	8.0%
Enterprise value (SAR mln)	4,528
Equity value (SAR mln)	4,064
Fair value per share	78



Investment Risks

The following risk factors could materially impact the company's financial and consequent share performance.

Low entry barrier

The fitness center industry has a low entry barrier. This would place Leejam's margins at risk of contraction due to the possibility of new players entering the market and competing. Specifically, risk may arise from low-cost fitness centers. Low-cost fitness centers offer "no frills" products, a popular trend globally.

Regulatory changes

Regulation by local municipalities could impact Leejam potential of opening new centers. For instance, if certain municipalities started requiring fitness centers to allocate a higher percentage of their land lot space for parking, this would increase the rental cost for Leejam (As of 2018; 10% of the revenue). Furthermore, another possible regulation would be requiring a fitness center to be located at a certain distance from residential properties. This would curtail Leejam's ability to find new locations for centers by reducing available lands lots for rental.

Government buildings' parks and public sporting facilities

The General Sport Authority (GSA) aims to increase the percentage of people who exercise regularly at least once a week to 20% by 2020 from 13% currently. This could mean that the government would build more public centers with free access to soccer fields, basketball courts, and running tracks; potentially redirecting some of the gym members to these public centers.

Switching to monthly subscriptions

The common practice for fitness centers in the US, Canada, and Europe is a monthly paid subscription. If this practice were to be introduced in Saudi Arabia, this would cause a reduction in the deferred revenue account, putting pressure on Leejam's cashflows. As a result, the company might seek additional financing from banks to finance on-going business requirements and capex, resulting in higher financing costs and leverage.

Rising interest rates

3M SAIBOR has increased +35 bps in the last six months. A potential hike in US rates could push SAIBOR over 3.5% this year; however this is looking increasingly unlikely as the US Fed has grown cautious with economic data weakening.



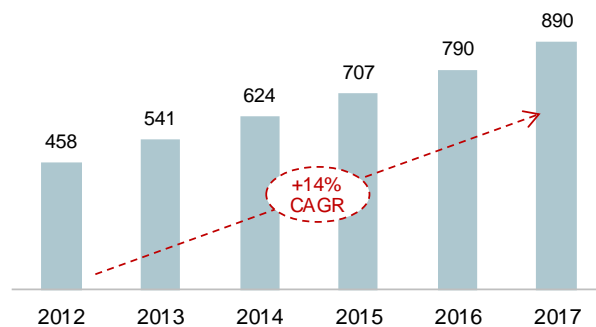
Industry Overview

Leejam: A market leader

Leejam Sports operates in a fragmented industry; the market has expanded at a CAGR of 14% in the period from 2014 till 2017 in terms of number of members. Fitness Time brand leads with 27% share in the market in terms of members. According to International Health, Racquet & Sportsclub Association (IHRSA), there are 1,100 centers in Saudi Arabia.

We expect the market to continue to grow in the future, reaching levels similar to the global fitness market in terms of market penetration. The US health and fitness industry has grown by at least 3–4% annually in the last 10 years, according to IHRSA. Revenue grew to USD 30 billion in 2017 from USD 27.6 bln in 2016, while membership increased to 60.9 mln from 57.2 mln. Globally, the fitness industry revenue was an estimated USD 87.2 bln in 2017; the industry served 174 million members at health fitness centers in 2017, and this figure is expected to have reached USD 88 bln in 2018.

Figure 1: Saudi Fitness Market Size (000's members)



Source: Company Reports

Table 1: Market Share - Saudi Male Primary Fitness Market

Company	Market Share (# of members)	Market Share (# of Fitness Centres)
Fitness Time	27%	12%
Body Masters	7%	4%
The Power Gym	2%	2%
Fitness First	1%	1%
Gold's Gym	1%	1%
Others	63%	80%

Source: Company Reports

In terms of competition, we see limited potential from established competitors (Body Masters, Gold's Gym, and Fitness First), many of which have been operating in Saudi Arabia for a while without being able to gain ground on Leejam (Body Masters was established in 1993 and Gold's Gym commenced operations in Saudi Arabia 13 years ago). Hence, we expect Fitness Time to continue to dominate the traditional fitness industry in Saudi Arabia.

Table 2: Annual GYM Membership Fees (Full Price)

Company	Price (SAR)
Fitness Time (Standard Format)	4,988
Body Masters	5,200
NuYu Female gym (Standard Format)	6,300
Gold's Gym	6,060
Fitness First	3,800

Source: Company Reports



Major industry players could be threatened by low-cost fitness centers in the future. Low-cost fitness centers (or smart fitness centers) offer “no frills” gym experiences, a popular trend globally. Leejam Sports would be able to rapidly adapt to the low-cost fitness trend by reintroducing its own brand “Fitness Time Basic” however the company could risk cannibalizing its existing low cost format (Fitness Time Pro) and possibly compress margins. Nonetheless, considering that Leejam Sports have actually experienced the migration of members from Fitness Time Pro to the Fitness Time Standard format due to opening of new Fitness Time Standard format centers in nearby vicinities at some locations, signifying that there is an appetite for more “premium” gym experiences in Saudi Arabia.

Table 3: 2017 Fitness Time Membership / Centers

Company	Number of Members	Number of Centres	Members / Centres
Fitness Time Plus	3,686	4	922
Fitness Time	82,547	51	1,619
Fitness Time Pro	73,792	41	1,800

Source: Company Reports

Table 4: Sample of Membership Fees

Company	Market Cap. (USD mIn)	Country	# of Members	# of centers	Members / Centres	Membership Fees Monthly
Actic Group AB	59	Sweden	220 K	177	1,245	80-110 USD*
Basic-Fit N.V.	1,855	Netherlands	1.8 mln	629	2,930	20-30 Euro
Planet Fitness, Inc.	6,555	United States	12.5 mln	1,742	7,204	10- 22 USD
The Gym Group plc	392	United Kingdom	724 K	158	4,582	15 - 31 GBP*
Tow n Sports Int Holdings, Inc	118	United States	627 K	185	3,389	69 - 99 USD*

Source: Company Reports

* Varies by each city

According to IHRSA's Industry Data Survey, the median Gym membership in the U.S. is USD 61 per month. While multi-purpose clubs charge a median of USD 75 per month (SAR 3,375 annually) and multi-site clubs charge a median of USD 64 per month (SAR 2,745 annually). Looking at the median prices for multi-purpose clubs and multi-site clubs (Fitness Time is both multi-purpose & multi-site), KSA fitness centers membership prices is higher than its USA counterpart. Fitness Time standard format price is about 48% higher than the median USA multi-purpose clubs. While Fitness Time Pro format is inline with the USA multi-purpose clubs median membership prices.

Growth Opportunities In The Industry

The overall macro view is very favorable for the fitness industry in Saudi Arabia; the base is very low in terms of market penetration. Saudi Arabia has a market penetration of about 8% (2.6% for females), compared with 26% in the US. The younger generation has turned increasingly fitness conscious over the past couple of years, and this trend could continue until the Kingdom reaches levels similar to the US in terms of market penetration. Furthermore, we believe Saudi Arabia's market penetration levels could be even higher than that of its developed counterparts (the US, Canada, and Australia). The weather in Saudi Arabia is not conducive for outdoor activities such as jogging, in addition to the Kingdom having insufficient number of parks and public sporting facilities (such as field hockey, soccer field and basketball courts), which are more prevalent in developed countries. Hence, maintaining an active physical lifestyle may prove challenging in Saudi Arabia without access to a fitness center.

According to a Nielsen 2014 survey in the US, 81% of Millennials exercise or would like to, against just 61% of Baby Boomers. We view this as a significant generational difference. Younger generations are more conscious of their health and body image; hence, they exercise more than Baby Boomers, in spite of the latter generation's health being more impacted by their decision on whether or not to exercise.

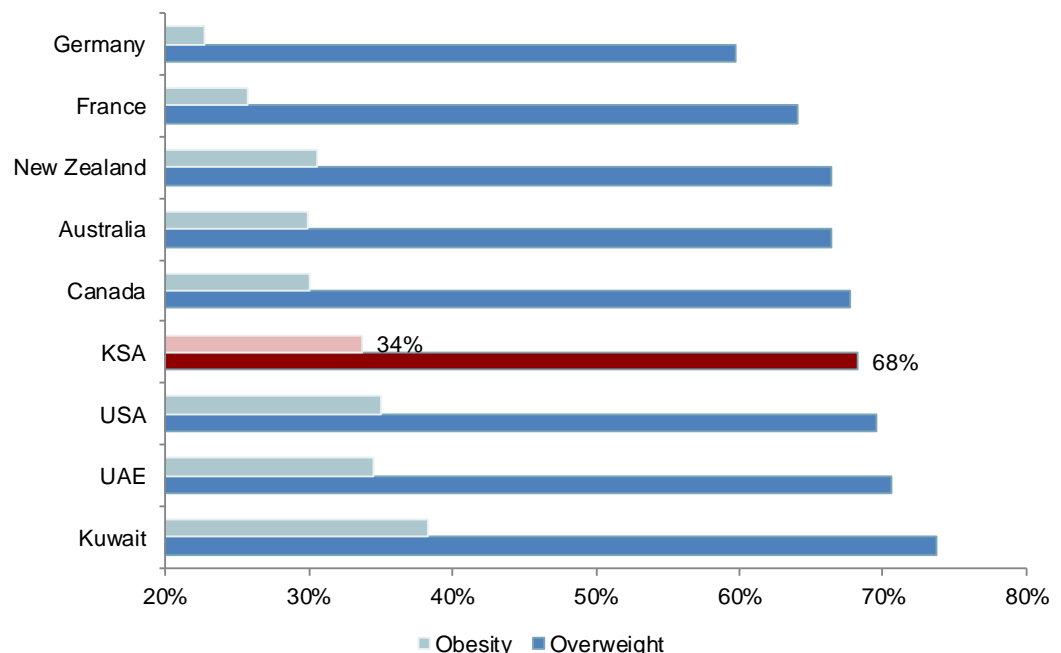


Recent regulatory changes by the General Sports Authority witnessed the granting of licenses to female fitness centers in July 2017. The female fitness market is in its infancy; this presents an excellent growth opportunity for Leejam Sports. The company has the scale and expertise to ramp up the number of female branches, and take full advantage of being the first mover in the market in many cities. Moreover, with “Fitness Time” being the strongest brand in the market currently, it would give Leejam’s new female centers the ability to reach maturity in shorter period and with less spending on advertising compared to other less well-known competitors. According to a survey by the General Authority for Statistics, just around 7% of females in Saudi Arabia practice sports activity. This is lower than the male population with 20%. The difference may be attributed to the lack of availability of female fitness centers, the expensive fees charged at the centers currently, and other social constraints. All of those reasons mentioned previously could be resolved by Fitness Time Ladies centers.

Leejam Sports Company plans to increase its center count to 208 by 2023. The company has four main formats of fitness centers (Plus, Standard, Pro, and Junior); this diverse portfolio of fitness centers would be useful for servicing various segments in the market depending on the individual income bracket.

Additionally, Saudi Arabia is currently among the most obese countries in the world, with around 34% of the population obese and 68% overweight. This is a common trend among GCC countries, which are characterized by high disposable incomes and over-reliance on private vehicles for everyday transportation (as opposed to public transportation, which requires an individual to walk more). Nonetheless, the Saudi government, as part of 2030 Vision, would try to offer incentives to the population to be more physically active, increasing the percentage of Saudis who exercise regularly (at least once a week) to 20% in 2020 from 13% currently. The government may even engage in obesity awareness campaigns in an effort to promote a healthier lifestyle amongst the population.

Figure 2: Obesity & Overweight (% of Population)



Source: World Health Organization



Company Background

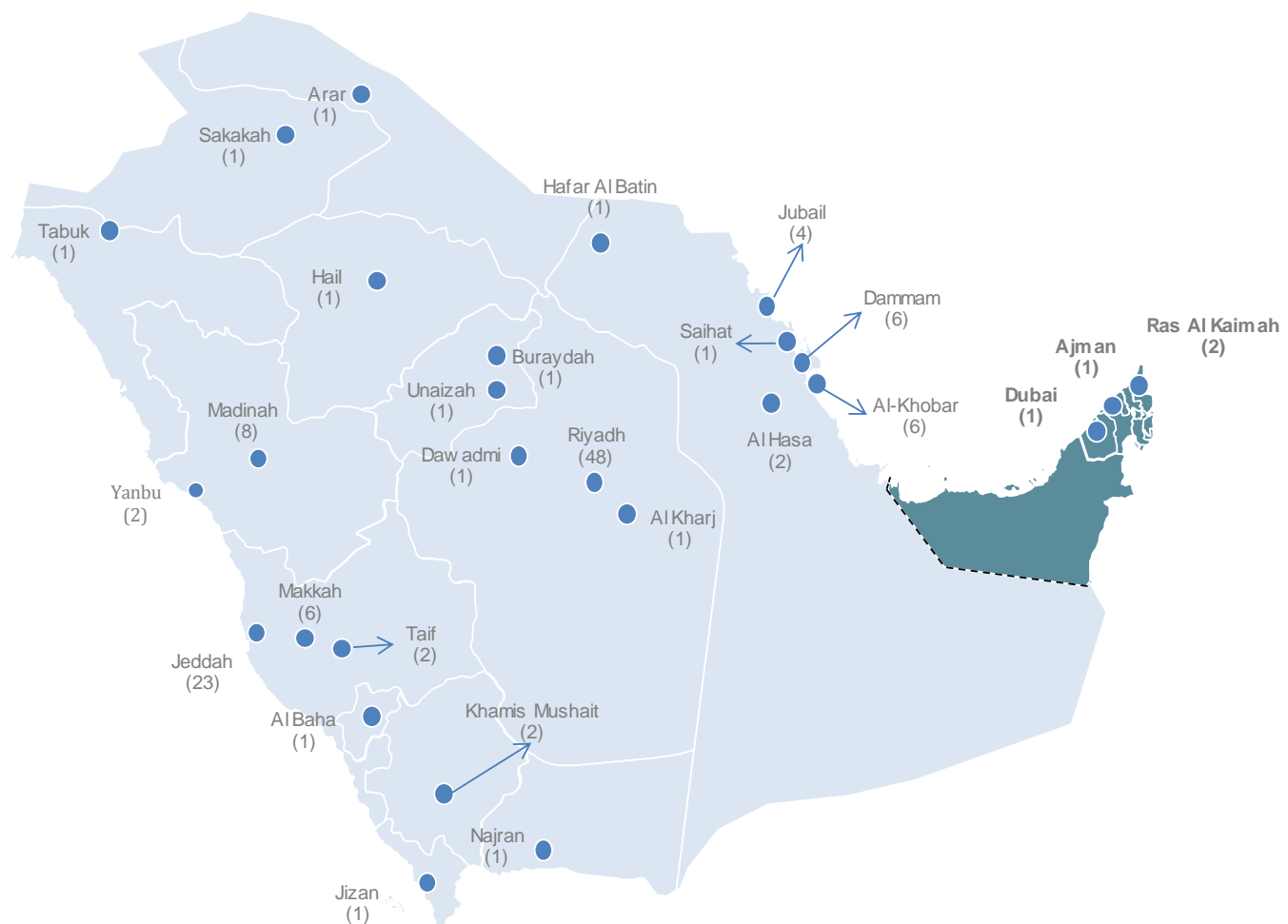
Leejam Sports Facts & Figures

# Members	217K
Male	182K
Female	35K
# Centers	126
# Cities	27

Source: Company Reports

Leejam Sports Company (main brand: Fitness Time), which commenced operations in 2005 in Tabuk, is considered a market leader in the construction, operation, management, and maintenance of fitness centers in Saudi Arabia. The company's management has a long history of operating fitness centers in Saudi Arabia. Leejam Sports currently have 126 centers, four of which are located in the UAE. The Company's fitness centers range in size from 1,100 m² to over 6,000 m², with an average center size of 3,450 m² as per the prospectus. The brand name "Fitness Time" has become synonymous with fitness centers in Saudi Arabia, Leejam Sports operates in 27 cities in Saudi Arabia. The company owns 95% of the brand Fitness Time. The company is headquartered in Riyadh and employs 2,579 personnel.

Figure 3: Geographic Footprint (as of 31 December 2018)



Source: Company Reports



The company operates across four primary formats:

Table 5: Membership Model and Pricing

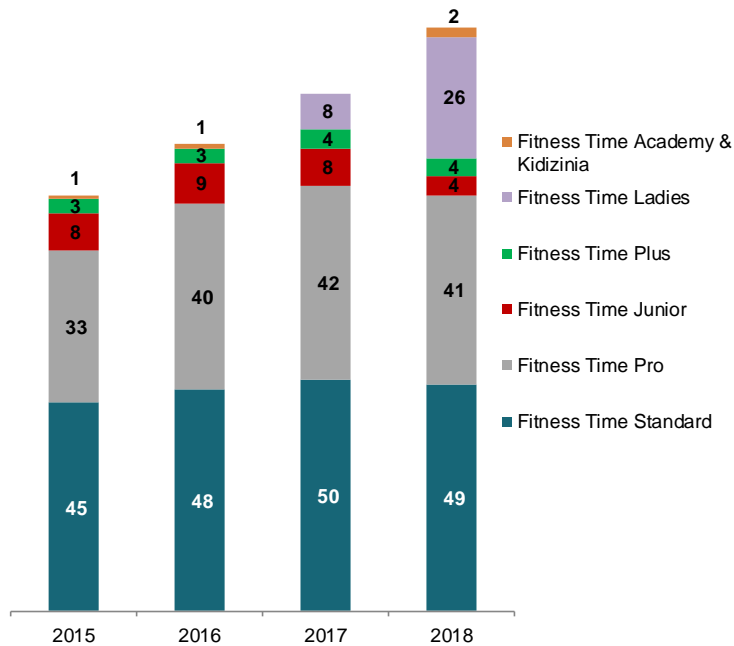
Brand	Description	Duration	Price (SAR)
Fitness Time Plus	Fitness Time Plus fitness centres offer premium facilities for both Male & Female	3 months	3,045
		6 months	5,145
		12 months	8,925
Fitness Time	Fitness Time offer typical fitness centre services and equipment for both Male & Female	1 months	788
		3 months	1,838
		6 months	2,993
		12 months	4,988
Fitness Time Pro	Fitness Time Pro is positioned at a lower price point than Fitness Time for both Male & Female	1 months	524
		3 months	1,155
		6 months	1,943
		12 months	3,255
Fitness Time Junior	Targeted at boys and youth in the 5-16 age range	3 months	1,418
		6 months	2,205
		12 months	3,728

Source: Company Reports

In addition to the above-mentioned formats, the company has developed the Fitness Time Basic brand, which operated in a single location and was closed and transformed into a female fitness center in 2017. The company developed the Fitness Time Basic brand to test the low-cost fitness center model.

Leejam Sports were listed in September 2018 through an initial public offering (IPO) at SAR 52 per share. 30% of outstanding shares were offered to the public, equaling 15.7 mln shares. The company's current market capitalization is SAR 4.0 bln, and the 52-week high-low ranges from SAR 79.60 to SAR 41.00.

Figure 4: Centres Break-up



Source: Company Reports



Financial Analysis

Revenue Forecast

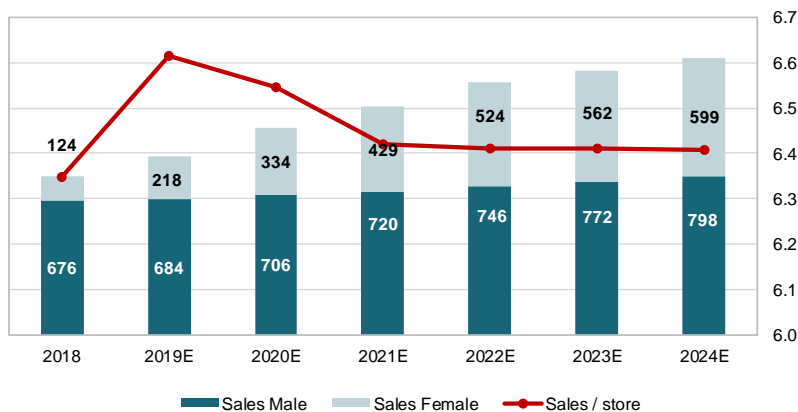
Clarity over consumers' disposable income is increasing. Almost all of the possible impacts, such as higher electricity traffic, gasoline price hikes, and VAT implementation, have materialized. Hence, we do not expect to witness further reduction in consumers' disposable incomes. During the period, where consumer confidence was impacted (2016–17) Leejam Sports experienced a Like-For-Like ("LFL") decline of 6.4%. The LFL decline mainly impacted the Pro format (-11.7%), as a result of softness in the market. While the upscale format (Fitness Time Plus), experienced an increase LFL by 2.6%, as a result of promotions and offering shorter duration (3 and 6 months) memberships. According to the management, the company has experienced 2-3% LFL growth YTD in 2019.

In setting our forecasts for Leejam Sports, we assume revenue per center of around SAR 6.6 mln for 2019; thereafter it will decline and stabilize around SAR 6.4 mln as the company will most likely add more Pro format in the future when entering new cities. Our revenue projections imply a CAGR of 10% over 2018–24. For 2019, we expect continued improvement in revenues to SAR 920 mln (+15% Y/Y), driven by center additions. Long-term growth would be achieved from the following:

- **Favorable demographics:** The population that is below 19 years of age accounts for 32% of the total population in Saudi Arabia. This amounts to around 10 million people below 19 (8 mln of these being Saudi nationals). This could result in greater demand for gym memberships in future.
- **Center additions:** We forecast Leejam's center portfolio to increase to 216 by 2024.
- **Acquisition of existing fitness centers:** Acquiring existing stand-alone fitness center is a great approach to expanding the geographical footprint without increasing the supply of fitness centers in a given area. Considering that the market is fragmented with a large number of independent fitness centers. We consider existing standalone female fitness centers to be the ideal targets for acquisition.
- **Change in population's attitude:** People are becoming more fitness conscious; the Saudi Fitness market has increased in the period 2012-17 by a CAGR of 14% in terms of number of members. We believe this trend would continue, in line with the global trend till market penetration reaches levels in developed countries (US, UK and Canada).
- **Growth in female membership:** With the General Sports Authority granting licenses to female fitness centers in 2017, we believe that this would create a new market that is comparable in size to the Male fitness center market. Furthermore, as a part of the government's 2030 Vision, efforts are being undertaken to increase the Saudi female participation in the workforce. This would also help support growth in the female fitness market, as it would provide higher disposable incomes to the female population. Furthermore, due to the market being in its infancy, there are no major competitors in the market that could pose a serious threat to Leejam.
- **Corporate clients:** Some companies subsidize their employees' membership in fitness centers as a fringe benefit. Leejam has a strong corporate client base, which, according to an IHRSA report, is estimated to be the largest portfolio of corporate clients for any fitness center business in the MENA region. As of 2018, 18% of members came from the corporate business and accounted for 12% of revenues. Thus, we expect this could help support growth in future, driven by an increase in Saudi employment in the private sector as part of 2030 Vision. Moreover, the company is currently working on a deal to have special membership (discounted) for retirees to able to visit the centers during off-peak hours (early morning to 3 PM), possibly the deal will directly through GOSI or PPA.

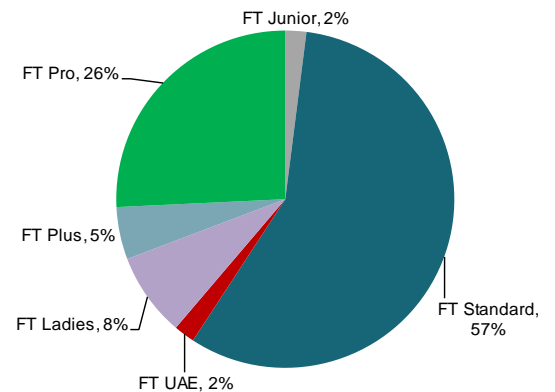


Figure 5: Revenue and revenue per Store (SAR mln)



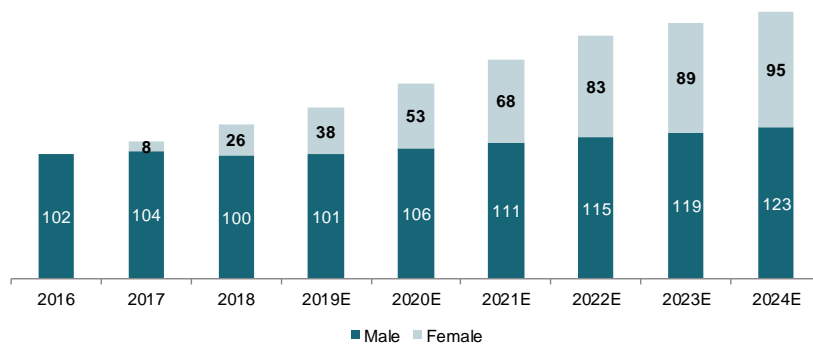
Source: Company Reports, SFC

Figure 6: Revenue Breakdown (2017 and 2018 average)



Source: Company Reports

Figure 7: Number of Centers

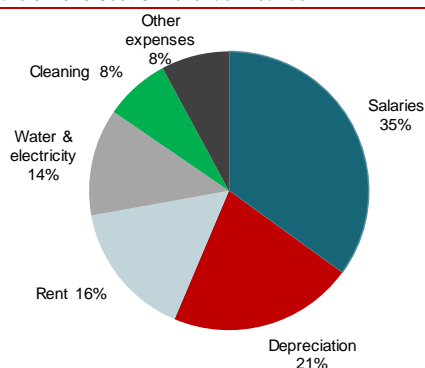


Source: Company Reports, SFC

Gross Margins

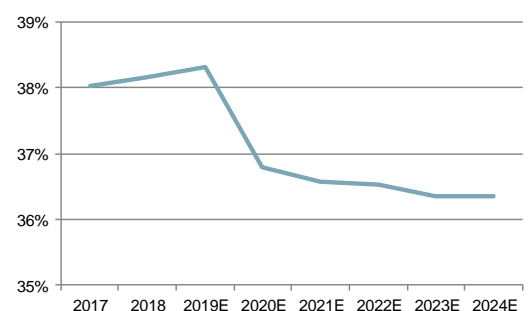
Leejam's cost of revenue constitutes around 70–80% fixed cost, including salaries, rents, and depreciation. In our view, the cost structure puts the company in a vulnerable position in case the new center additions fail to generate the expected number of members. This would result in significant contraction in gross margins. However, converting underperforming male and junior centers to female centers could help support margins. Moreover, expanding in the off-peak membership could help utilize the centers without impacting the experience of regular members. In our forecast, we expect gross margins to gradually decline, dipping to 36% in 2022 as Leejam continues to offer discounts and promotions in effort to expand and protect its market share.

Figure 8: 2018 Cost Of Revenue Breakdown



Source: Company Reports

Figure 9: Gross Margins



Source: Company Reports, SFC

Gross margins from 2014 – 2016 were around 44%



Expat fees

We expect Leejam to pay SAR 26 mln annually in expat fees by 2024. We assume that the company will book the expat fees as part of the G&A expenses. As of December 2018, the company employs 2,579 personnel, in terms of Saudization the company is in the high green zone.

Table 6: Expat Fees Effect on Leejam

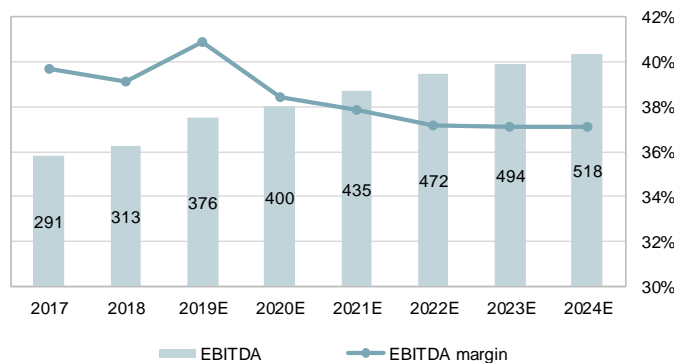
	2018E	2019E	2020E	2021E	2022E	2023E	2024E
Expat Fees							
No. of Expats equal to no. of Saudis	300	500	700	700	700	700	700
Expats more than Saudis	400	600	800	800	800	800	800
# Total employees	2,579	2,822	3,197	3,572	3,928	4,115	4,302
# Expat employees	1,749	1,908	2,148	2,399	2,638	2,763	2,889
Expat Fee Cost (SAR mln)	7	13	19	22	24	25	26

Source: SFC, Fiscal Balance Program

EBITDA and Margins

We forecast EBITDA to reach SAR 376 mln in 2019. Key risks in our view include the ability to continue with the current membership prices and the spread of low-cost fitness centers. We have modeled escalating G&A expenses, which are primarily staff related.

Figure 10: EBITDA and Margins (SAR mln)



Source: Company Reports, SFC

We expect EBITDA margin to expand in 2019 up to 41%, as a result of reduction in operating expense in 2018 there was one off bonus paid for executives as part of end of service benefit, which we don't expect to recur again this year. Also, Selling & Marketing expense will decrease as a result closing the Barcelona FC Academy. Furthermore, we forecast that the EBITDA margin will contract over the next few years due to the expat fees and decline in gross margins.

Table 7: LTM Margins Comparison

	Country	Margins		ROA	ROE
		EBITDA	Net		
Actic Group AB	Sweden	17.6%	2.4%	1.6%	3.7%
Basic-Fit N.V.	Netherlands	30.1%	4.4%	2.2%	5.5%
Planet Fitness, Inc.	USA	38.3%	15.4%	7.2%	NA
The Gym Group plc	UK	26.3%	5.8%	3.1%	4.8%
Tow n Sports International Holdings, Inc.	USA	11.3%	0.0%	0.0%	NA
Average		24.7%	5.6%	2.8%	4.7%
Leejam Sports		39.1%	19.5%	11.2%	25.2%

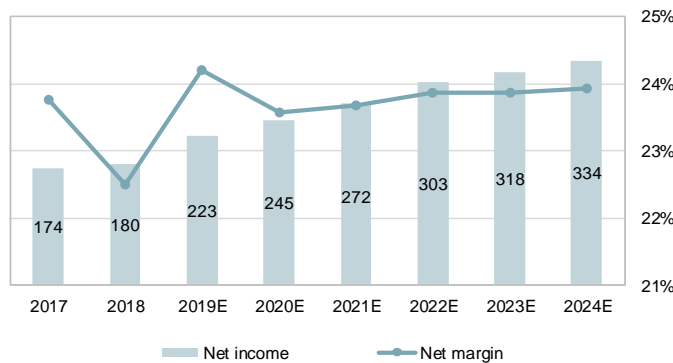
Source: Company Reports



Net Income

Earnings are expected to increase steadily in the coming years. For 2019, we project net income of SAR 223 mln (+24% Y/Y) to yield a 24% net margin. According to the management, the company targets 25% net margins going forward.

Figure 11: Net Income and Margins (SAR mln)



Source: Company Reports, SFC

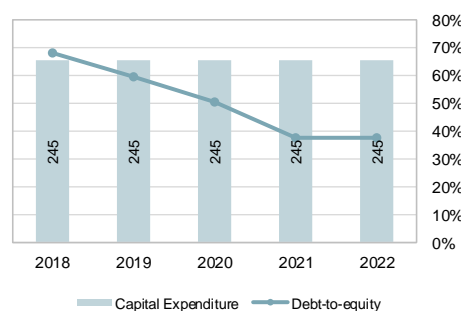
Dividends

The company declared SAR 1.83 DPS for 2018. By 2021, we see scope for dividend to increase as more centers turn operational. The payout ratio is estimated between 50% and 60% as we forecast the company to comfortably balance capex and debt servicing requirements.

Capital Expenditure

We are estimating capital expenditure of SAR 245 mln as we forecast Leejam to continue on its path of reaching 218 centers by 2024. For 2019, the company is targeting to reach 139 centers (mainly female centers), while maintenance capex for 2019 is projected to be SAR 40 mln according to the management. Moreover, the cost per center ranges between SAR 12-18 mln (Pro: SAR 12-14 mln, Standard: SAR 14-16 mln and Plus: SAR 16-18 mln). As of E/Y 2017, all fitness centers are located on leased lands, except for one center. Capital expenditure can be funded primarily through operating cash flow (OCF) and debt.

Figure 12: Capital Expenditure & D/E ratio



Source: Company Reports, SFC

Valuation

We applied discounted cashflow to value Leejam. We forecast the company to generate escalating free cashflow in the coming years as more centers become operational. Our key assumptions include a risk-



free rate of 4.0% and long-term growth rate of 2.5%. The calculated weighted-average cost of capital (WACC) at 8.0% to arrive at a fair value of SAR 78 per share.

Figure 13: DCF Valuation

SAR mln	2020E	2021E	2022E	2023E	2024E	Assumptions	
EBIT	268	294	322	336	353	Risk-free rate	4.0%
+ Depreciation & amort	132	141	150	158	166	LT growth rate	2.5%
- Zakat	3	3	3	4	4	Beta	1.0
- Working capital changes	-11	-24	-27	-14	-14	Equity risk premium	6.0%
- Capex	245	245	245	245	245	Cost of equity	10.0%
FCFF	163	211	251	260	283	Cost of debt	5.0%
Discounted FCFF	916					% Debt	40%
Discounted terminal value	3613					% Equity	60%
Enterprise value	4,528					WACC	8.0%
Net debt	465						
Equity value	4,064						
Shares outstanding (mln)	52.38						
Value per share (SAR)	78						

Source: SFC

Table 8: Sensitivity Analysis

		WACC				
		7.60%	7.80%	8.0%	8.2%	8.4%
Terminal growth rate	2.00%	77	74	71	69	66
	2.25%	81	77	74	71	69
	2.50%	84	81	78	74	71
	2.75%	88	84	81	77	74
	3.00%	93	88	84	81	77

Source: SFC

Table 9: SFC Consumer-Retail Coverage Trading Multiples

	Company	TASI Code	Close Price	Shr O/S mln	Market cap	P/E			EV/EBITDA		
						2018	2019E	2020E	2018	2019E	2020E
Durables	Jarir	4190	169.20	120	20,304	21.2x	20.4x	19.8x	19.5x	18.7x	18.1x
	eXtra	4003	64.60	50	3,230	20.0x	18.7x	14.8x	15.7x	14.4x	12.4x
	SACO	4008	77.50	36	2,790	28.5x	18.4x	17.3x	18.6x	13.6x	13.1x
	Fawaz Alhokair	4240	24.96	210	5,242	50.6x	17.3x	16.8x	12.6x	10.3x	10.7x
	Total/Median				31,566	24.8x	18.5x	17.1x	17.2x	14.0x	12.8x
Staples	Othaim	4001	75.80	90	6,822	22.5x	17.4x	15.7x	13.1x	11.8x	10.4x
	Farm	4006	17.24	45	776	n.m.	28.8x	23.9x	17.1x	13.0x	13.9x
	Savola	2050	33.40	534	17,835	n.m.	92.5x	33.4x	23.2x	15.9x	13.2x
	Total/Median				25,433	22.5x	28.8x	23.9x	17.1x	13.0x	13.2x
	Group				56,998	22.5x	18.7x	17.3x	17.1x	13.6x	13.1x
	Leejam Sports	1830	78.00	52	4,086	22.7x	18.4x	16.7x	14.6x	12.1x	11.4x

Source: Company Reports, SFC

Table 10: International Comparable Trading Multiples

	Market Cap. (USD mln)	Country	P/E			EV/EBITDA			Debt/Equity 2018
			2018	2019E	2020E	2018	2019E	2020E	
Actic Group AB	59	Sweden	24.9x	7.9x	7.1x	6.8x	4.5x	4.3x	0.8x
Basic-Fit N.V.	1,855	Netherlands	81.1x	36.8x	26.5x	14.5x	12.5x	9.9x	1.0x
Planet Fitness, Inc.	6,555	USA	46.7x	45.9x	37.6x	26.7x	27.7x	23.8x	n.m.
The Gym Group plc	392	UK	50.6x	19.0x	15.2x	12.6x	7.2x	6.2x	0.3x
Town Sports International Holdings, Inc.	118	USA	65.6x	19.4x	16.0x	6.6x	4.9x	4.7x	n.m.
Median			50.6x	19.4x	16.0x	12.6x	7.2x	6.2x	0.8x
Leejam Sports	1,090	Saudi Arabia	22.7x	18.4x	16.7x	14.6x	12.1x	11.4x	0.7x

Source: Bloomberg, Reuters



Research and Advisory Department

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Shares of company under coverage in this report are expected to outperform relative to the sector or the broader market.

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Shares of company under coverage in this report are expected to underperform relative to the sector or the broader market.

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